are responsible and appropriate in their conduct of activities and that they would only conduct a merger that would be in the best interests of not only themselves but the public. But I think that sometimes strains credulity.

It is appropriate, important and, in very practical ways, necessary to have the requirement for prior approval of these major transactions by the Federal Reserve Board, because the Federal Reserve Board has a role independent of the management of the banks. They are trying to maximize shareholder value; they are trying to be competitive in a very difficult market.

But it is the Federal Reserve's responsibility to ensure safety and soundness, that competition will not be adversely affected, and that this transaction will in some way serve the public interest. I don't think you can do that by implication. I don't think you can do that by checking after the fact.

Again, the reality is that when multibillion-dollar institutions merge and then discover after the fact that it really was a bad idea, it is hard to unravel those transactions. To do it right, you have to do it up front. Therefore, this legislation should have prior approval by the Federal Reserve Board.

All of my comments have been appropriately addressed by the Democrat substitute, which will be offered by Senator SARBANES.

Let me conclude with some specific concerns about a question that has concerned me throughout the course of our debate not only in this Congress but in the last Congress. That is whether or not the regulatory framework we are creating will be sufficient to protect the safety and soundness of institutions and ultimately protect the public interest.

We are trying to expand opportunities, to break down the old hierarchies, the old barriers between different types of financial activity, to give the kind of robust, dynamic opportunities that are concomitant with this world of instantaneous transfer of information and billions of dollars across boundaries. In doing that, we have to recognize our ultimate responsibility is to ensure these institutions operate safely, that they are sound, and that regulatory responsibilities are discharged.

We expand dramatically the powers of these institutions under this legislation. But in some respect we are inhibiting some of the traditional regulatory roles of our Federal regulators. For example, in section 114, there is a prohibition which prevents the Office of the Comptroller of the Currency and the Office of Thrift Supervision from examining a mutual fund operated by a bank or thrift. Currently, they have limited authority to do such examinations. We are taking that away.

Section 111, another example, prohibits the Federal Reserve from examining the securities or insurance affiliate unless there is a ''reasonable cause to believe'' the affiliate is engaging in risky activity. Ask yourself, how do you reasonably believe such activity is taking place unless you have the opportunity and indeed the authority to at least go in and check periodically what is going on?

Many of these provisions might create a structure of regulation which is just too porous to withstand the kind of pressures that we see in the financial marketplace. It is reasonable to conclude how we got here. We have emphasized throughout this debate this notion of functional regulation, that securities should be regulated by the SEC, depositories should be regulated exclusively by banking regulators, and that a loose, overarching regulatory provision should be discharged by the Federal Reserve.

Setting up compartments with a loose umbrella invites the notion that something will go wrong, something will fall through the cracks. As we go through this process, the debate and the continued examination of this bill, we have to ask ourselves not only before the legislation is passed but if it is passed afterwards, are there any unintended loopholes that could be exploited, unfortunately, which would be detrimental to safety and soundness?

There is another provision which I think is important to point out. That is the notion that in the context of the insurance business, State insurance regulators basically have a veto over Federal Reserve authority to demand that an insurance affiliate contribute to the State of a holding company. This is a reversal from the traditional authority and the traditional regulatory perspective of the Federal Reserve.

For years, since their active regulation of the Bank Holding Company Act, the doctrine of the Federal Reserve has been that the holding company is a source of strength to the underlying depository institution. That ''source of strength'' doctrine is, in part, repealed by this legislation, because within the context of an insurance company, and specifically the next great round of mergers will be between depository institutions and insurance companies—that is the example that Travelers and Citicorp established when these insurance companies started merging together with banks, big banks, big insurance companies—we are going to have for the first time in our financial history, a situation where an insurance regulator can say to the Chairman of the Fed, even though that depository institution is ailing mightily and my insurance company is very healthy, I'm not going to allow any transfer of funds from the insurance entity to the depository institution because I don't have to, one; and, two, I'm concerned about the long-term viability of the insurance entity, so I will not cooperate.

What that means is that rather than the present model where every subsidiary affiliate of a holding company contributes to the health of the deposit insurance, we have a situation where the taxpayer, through the insurance funds, will be bailing out a bank that very well might have a very healthy insurance affiliate.

These are some of the regulatory examples which I think have to continue to be watched, examined, and thought about. I hope as we go forward that we could engage the Fed in a constructive dialog with respect to their views on how we on a practical basis deal with some of the concerns I raised today.

We have the potential of passing legislation which would be terribly helpful to our financial community. I want to pass the legislation. Unless we resolve the issue of the Community Reinvestment Act, unless we resolve the issue of operating subsidiaries, unless we look more carefully and closely and make changes perhaps in some of the regulatory framework, this is not the legislation that ultimately can or should become law.

I yield my time.

Mr. SARBANES. Mr. President, I ask unanimous consent that when the Senate resumes its session, I believe it is now scheduled for 2:15—after the party caucus break—Senator WELLSTONE be recognized to make his opening statement. I think he thought that was the understanding but we did not actually have a unanimous consent request. This has been cleared by both sides.

The PRESIDING OFFICER. Without objection, it is so ordered.

(The remarks of Mr. SPECTER pertaining to the introduction of S. 952 are located in today's RECORD under ''Statements on Introduced Bills and Joint Resolutions.'')

THE PALESTINIAN AUTHORITY

Mr. SPECTER. Mr. President, I compliment the Palestinian Authority for not acting unilaterally to declare statehood. Chairman Yasser Arafat visited me on March 23, and I urged him at that time not to make a unilateral declaration of statehood. He then said to me that when the Palestinian Authority had changed its charter, as it was urged to do so by an amendment introduced by Senator SHELBY and myself some years ago, that there was no credit given for that. I said there should have been credit given. And Chairman Arafat asked if they did not make the unilateral declaration if there would be some acknowledgment of that move. I said I would take the floor when May 4 came, which was the date targeted—that is today—and there was no unilateral declaration of statehood. And there has been none.

I congratulate the Palestinian Authority for its restraint. That is a matter which ought to be negotiated under the terms of the Oslo agreement. Chairman Arafat asked me if I would put it in writing that I would make the statement. And I said I would; and I did.

I ask unanimous consent that my letter to him dated in March be printed in the RECORD.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

U.S. SENATE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC, March 31, 1999.

Chairman YASSER ARAFAT,
President of the National Authority, Gaza City, GAZA, Palestinian National Authority.

DEAR MR. CHAIRMAN: Thank you very much for coming to my Senate hideaway and for our very productive discussion on March 23rd.

Following up on that discussion, I urge that the Palestinian Authority not make a unilateral declaration of statehood on May 4th or on any subsequent date. The issue of the Palestinian state is a matter for negotiation under the terms of the Oslo Accords.

I understand your position that this issue will not be decided by you alone but will be submitted to the Palestinian Authority Council.

When I was asked at our meeting whether you and the Palestinian Authority would receive credit for refraining from the unilateral declaration of statehood, I replied that I would go to the Senate floor on May 5th or as soon thereafter as possible and compliment your action in not unilaterally declaring a Palestinian state.

I look forward to continuing discussions with you on the important issues in the Mid-East peace process.

Sincerely,

ARLEN SPECTER,
Chairman.

Mr. SPECTER. I again thank the Chair for his staying late. I thank him, beyond that, for listening to my speech. Very often Presiding Officers are otherwise engaged. I yield the floor.

RECESS

The PRESIDING OFFICER. Under the previous order, the Senate stands in recess until the hour of 2:15 p.m.

Thereupon, at 1:03 p.m., the Senate recessed until 2:15 p.m.; whereupon, the Senate reassembled when called to order by the Presiding Officer (Mr. GREGG).

FINANCIAL SERVICES MODERNIZATION ACT OF 1999

The PRESIDING OFFICER. The Senate will continue consideration of S. 900.

The Senate continued with the consideration of the bill.

The PRESIDING OFFICER. The Senator from Minnesota.

Mr. WELLSTONE. I thank the Chair.

Mr. President, I will be spending some time on S. 900, but I also, in my remarks today, will be focusing on the question of when the Senate is going to start dealing with issues that affect ordinary citizens. I think that is what people in Minnesota would like to know.

This is called the Financial Services Modernization Act. I have no doubt that the large banks and lending institutions are all for this. The question I have is, When are we going to come out here with legislation that benefits ordinary citizens?—which I mean in a positive way. I will come back to this later on.

The Minnesota Farm Services Administration has now had to lay off close to 60 employees. That is where we are heading. This is an agency, the Farm Services Administration, that is a grassroots organization. They are out there trying to serve farmers. They are out in the field. They pick up on what is happening in rural Minnesota.

Right now the message we are sending here from the Congress is, we can't even pass a supplemental appropriations bill that we started working on several months ago to provide spring planting operating money for family farmers. Prices are way down. Income is way down. People are being foreclosed on. It is not just where they work, it is where they live. They are losing their farms, and we can't even get to them some disaster relief money, some loan money, so they can continue to go on until we go back and change this ''Freedom to Fail'' bill that we passed several years ago.

I am not telling you that some of the large conglomerates and some of the large grain companies and some of the large packers aren't making record profits. They are. They have muscled their way to the dinner table. They exercise raw political control over family farmers.

Meanwhile, this bill, the Financial Services Modernization Act, is all about consolidation and letting large financial institutions have unchecked power. But what we should be talking about is these family farmers going under.

I talked with Tracy Beckman today, director of the Minnesota FSA office. He told me that right now we have 340 loan requests, totaling $44.9 million, that are approved but are unfunded due to a lack of funding. Right now there is the possibility, unless we get this funding, that we are going to have 800 farm families in Minnesota that aren't going to get any financing. They need that financing if they are going to be able to go on.

Yesterday Tracy Beckman told me the story of a family farmer who found out he couldn't get any loan money and he doesn't have any cash flow. You can work 24 hours a day and be the best manager in the world, and you will not make it as a family farmer right now. He said to one of our FSA officers out in the field, out in the countryside, when he found out that FSA can't help him because we are not able to pass a supplemental emergency assistance program, this farmer said, ''I'm just going to go home and shoot myself and my family.''

This is someone who is desperate. There is a lot of desperation in the countryside. We can't even pass a supplemental appropriations bill that will get some loan money out to family farmers, which we should have done a month ago or 6 weeks ago. Instead, we are out here on the floor talking about the Financial Services Modernization Act of 1999, the big bank act, the large conglomerate act, the large financial institution act. When are we going to be out here talking about affordable child care, or about raising the minimum wage? When are we going to make sure people get decent health coverage? When are we going to talk about providing more funding for the Head Start Program? When are we going to be out here talking about how to reduce violence in homes, and in schools, and in our communities? When are we going to be out here talking about something that makes a difference to ordinary people?

Now, Mr. President, I understand that all of the trade groups support this legislation—that is to say, all of the financial services groups. But I rise in strong opposition to this legislation called the Financial Services Modernization Act of 1999.

This bill, S. 900, would aggravate a trend toward economic concentration that endangers not only our economy, but, I think, more importantly, it endangers our democracy. S. 900 would make it easier for banks, securities firms, insurance companies, and, in some cases, commercial firms, to merge into gigantic new conglomerates that would dominate the financial industry.

Mr. President, this is the wrong kind of modernization at the wrong time. Modernization of the existing, confusing patchwork of laws, regulations, and regulatory authorities would be a good thing; but that is not what this legislation is really about. S. 900 is really about accelerating the trend toward massive consolidation in the financial sector.

This is the wrong kind of modernization because it fails to put in place adequate regulatory safeguards for these new financial giants whose failure could jeopardize the entire economy. It is the wrong kind of modernization because taxpayers could be stuck with the bill if these conglomerates become ''too big to fail.'' We have heard that before—''too big to fail.''

This is the wrong kind of modernization because it fails to protect consumers. In too many instances, S. 900 would lead to less competition in the financial industry, not more. It would result in higher fees for many customers, and it would squeeze credit for small businesses and rural America. Most importantly, Mr. President, this is the wrong kind of modernization because it encourages the concentration of more and more economic power in the hands of fewer and fewer people. The regulatory structure of S. 900, as well as the concentration it promotes, would wall off enormous areas of economic decisionmaking from democratic accountability.

Mr. President, this is the wrong time to be promoting concentration in the financial sector. S. 900 purports to update obsolete financial regulations, but